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Our Railroad Problem¹

How to Settle it Effectually in the Public Interest

BY SAMUEL REA

President, The Pennsylvania Railroad Company

FIVE months ago, in addressing the United States Chamber of Commerce, in the City of St. Louis, I suggested a solution of the railroad problem. Since then the Senate and House Committees have had hearings and the benefit of about fifty or more plans on this subject. As a result I now hope we can soon close our talking season, by Congress adopting constructive railroad legislation that will re-create railroad credit. Today railroad credit is based not solely on railroad earnings but directly on the Treasury of the United States, which is bad for the nation's finances and business, and a burden which increases its taxation.

RAILWAY EXECUTIVES' PLAN

To assist in the problem of restoring railroad credit the essence of the plan presented by the Association of Railway Executives, representing stock and other security holders and managers of roads earning about 93 per cent of the operating revenues of the country, was:—

1. Terminate Federal control as soon as necessary legislation is enacted. The Interstate Commerce Commission to immediately adjust rates to restore the roads to a self-sustaining basis. Pending such adjustment the Federal Government to continue the compensation to carriers under the Federal Control Act.

2. Fund indebtedness to the Government arising out of transactions during Federal Control.

3. Exclusive Federal regulation of all rates, in order to terminate state controversies and confusing regulation, and enable the Interstate Commerce Commission and the suggested Transportation Board to squarely meet the entire responsibility of adequate revenues required to sustain railroad credit. The Executives did not recommend the abolition of state commissions. They felt

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that the state commissions would still have a very large and extensive field to cover in the regulation of purely local and intra-state utilities, such as gas, power and water companies, urban and interurban transit lines, etc. In addition they might be made of great help in the constitution and the workings of the regional commissions also recommended.

4. Establishment of a Department or Board of Transportation to look after the transportation needs and facilities of the country in general, so that new capital might be attracted for future additions and betterments and new equipment. The Board to make recommendations to the Interstate Commerce Commission as to rate increases and adjustments and as to the condition of railroad credit. The administrative functions of the Interstate Commerce Commission to be transferred to the Transportation Board.

5. The Interstate Commerce Commission to be charged with the determination of reasonable and adequate railroad rates, as well as railroad valuation and accounting. Regional Commissions to be appointed on which every State would be represented, thereby avoiding the inconvenience and expense of concentrating practically all transportation questions at Washington. The Interstate Commerce Commission to have power to fix minimum as well as maximum rates. The suspension power for final rate approval to be reduced from ten months to about 60 days. The pooling of cars and traffic and the joint use of facilities to be authorized subject to governmental approval.

6. A wage board to be established for the prevention or adjustment of labor controversies, on which the public should be represented.

7. Exclusive Federal supervision of the issue of railroad securities and of all capital expenditures.

8. Broad powers of consolidation and merger of carriers to be conferred in order to eliminate unnecessary corporations. That Federal incorporation of State carriers be permitted if essential for the foregoing purposes.

9. Adequate rates to be made mandatory in order to sustain railroad credit and attract sufficient new capital. A statutory rule to be enacted by Congress requiring that railroad revenues shall be sufficient to pay operating expenses, including wages and

taxes, and give a proper return on the value of property used for railroad purposes, and be sufficient to attract new capital to improve and expand the transportation service.

Judging by conditions—past, present and looking to the future—we believed the foregoing requirements to be essential for any rational plan of strengthening railroad credit.

DANGERS OF FIXING MAXIMUM RETURNS

As a result of close contact with the railroad problem here and abroad and with the results of past experience of the National and State Governments with public works and railroads before us, we felt that government ownership or a government guarantee was not desirable for the railroads of the country. In its last analysis a government guarantee means government operation, as, if the government is to supply the funds, it must have a controlling force in expenditures for railroad operations. The situation today is practically that of a government guarantee. Similarly, although we realized our plan was not perfect, we avoided fixing a maximum return to all the railroads on their property investment, and a division of profits by individual companies if they exceeded that maximum, believing that any attempt to confiscate surplus earnings of any individual company would surely eliminate initiative, restrict competition and injure credit. Interest rates are exceedingly high compared to the pre-war period, and with the capital necessities of the world far from satisfied, any suggested maximum like 6 per cent would be too low for a period when the credit of the government itself, if left free from bank and treasury support, is nearly 5 per cent. The railroads have to raise about a billion dollars annually of new capital for improvements and equipment, as well as provide for maturing notes and securities, and may find 6 per cent insufficient for several years. Further, the danger of maximum earnings may be illustrated by the experience of many of the street railways of the country and their franchises, where the five-cent maximum fare was regarded as providing a sufficient margin of profit to meet all conditions, but, when confronted with world-wide war conditions, the five-cent fare proved totally inadequate compared to costs and taxes, so that public utility companies are as bad a problem for the country to adjust as the railroads.

Many of us remember leases in which 60 per cent or 70 per cent of gross was considered an ample compensation to a lessee to operate a road but the lessees in most cases were later compelled to buy up the stocks of such roads and cancel the leases, because 60 per cent or 70 per cent of gross proved insufficient to pay operating expenses, while the rent of 40 per cent or 30 per cent of the gross paid to the lessor, as earnings increased, became a bonanza.

From a long experience I distrust arbitrary maximum returns unless all other factors such as income, taxes, interest, etc., are likewise fixed, because we cannot foresee or control future business and financial conditions. I have more sympathy with specifying a minimum return as a guide to our commissions of what is an unreasonably low transportation rate and an unfair return on the investment, instead of relying on the courts to save the common carriers from confiscation. I would consider a return of 6 per cent on the property investment a minimum return, especially now when money will cost the railroads even higher figures. Judging by past experience there did not seem to be the requisite authority or initiative in the commissions—federal and state—to make rates that would produce a return of even 6 per cent for a traffic district, or rate making group of railroads, except in years when the roads showed an unexpected expansion of business and when costs continued somewhat stationary, as in parts of the calendar years 1909 and 1916. I have been informed that a minimum would not be specified by Congress, unless it be an absurdly low return like 4 per cent, upon which even the government itself has not been able to borrow the moneys it required, and which would be absolutely too low to form a credit basis for the railroads. Well, neither a maximum nor a minimum is required, if Congress will take the responsibility of directing the Federal Commissions to enable the railroads to resume business on a self-sustaining credit basis, and attract the necessary additional capital for improvements to properly serve the public. The railroads cannot serve the public if they continue on the "bread line." They are a menace to prosperity, while if prosperous they pay high taxes, improve and expand their facilities, give employment and make the industries prosperous. In good years they should be allowed to earn well above any minimum, so

that in lean years the public will not be asked to pay increased rates to offset large deficits.

CUMMINS' BILL

Now in response to all the testimony on the railroad question, and the various plans suggested, and the serious condition of railroad credit, a tentative Bill, Senate 2906, has been introduced by Senator Cummins to solve our problem. It is the first broad friendly legislative expression towards railroads in probably the last fifteen or more years. Therefore, I propose to briefly and, I trust, constructively, review some of its salient features that may interest Savings Banks' Executives, with the expectation that Senator Cummins will not consider the railroads and their owners ungrateful for the work he and his Committee have tried to do for the country, but with the sincere hope that he and his associates will endeavor to correct some features of the Bill, affecting the financial and investment aspect of the situation.

Beneficial Features—Cummins' Bill

Omitting criticisms of phraseology and detail, I consider some of the benefits sought to be promoted by the proposed measure are:

1. Return of the railroads to private ownership.
2. Funding of indebtedness of the roads to the government for capital expenditures made during Federal control—but certainly it ought to be for not less than ten years rather than five years, considering financial conditions generally, and the annual requirements for capital by the railroads, while, for general indebtedness, some security other than demand notes should be provided, otherwise credit will be imperiled rather than helped by such funding. This is equitable because the government assumed control, and should leave the railroads in at least as sound physical and financial condition as when they were taken over, and capable of carrying on the transportation business of the country. In the war period while the merchants, the industries, the farmers and others were protected by higher prices, and were given a basis on which to make profits consistent with the higher living costs, the railroads under government control were not placed in that position. Consequently, they should not be asked to pay the

large capital expenditures of the war period without assistance from the government to fund them for a long period and at low interest rates. These capital expenditures were made to assist in protecting the life of the Nation, and the roads should also have transportation rates sufficient to hereafter sustain them.

3. Exclusive Federal regulation of securities.

4. Reduction of rate suspension period from ten months to five months.

5. Creation of a Transportation Board charged with oversight of railroad physical conditions and administrative questions and general credit.

6. A more detailed definition of what elements shall be considered in deciding a reasonable rate.

7. Prevention of strikes that would interrupt interstate commerce.

8. Pooling of earnings and traffic.

9. Clothing the Interstate Commerce Commission with power to prescribe minimum as well as maximum rates.

Objectionable Features—Cummins' Bill

Some of the objectionable features are:

1. The Interstate Commerce Commission is not given effective authority over state rates. Without this authority how can the Commission and the Transportation Board fully protect railroad credit?

2. The provisions as to making compensatory rates and permitting a return sufficient to maintain railroad credit and provide adequate facilities are not sufficiently definite and mandatory to produce that result.

3. Labor provisions are too diffuse to be effective.

4. The purposes for which voluntary consolidations can be made are too restrictive in their scope and the provisions as to compulsory consolidations are fatal to railroad credit.

5. The commandeering of the so-called excess earnings of individual companies, and penalizing surplus earnings if used to provide better railroad facilities, is a decided blow to operating initiative and conservative financing.

6. Railroad valuation in its present form cannot be used for the various purposes proposed in the Bill, nor can it be completed

to enable the Commission or the carriers to promptly carry out the various provisions of this proposed law.

7. Confusion of authority for acquiring property and authorizing additions and betterments.

I will comment further on some of these objections.

RAILROAD VALUATION AND ITS USES

The valuation found by the Interstate Commerce Commission, under the present law, is claimed by the government to be a valuation only for rate making purposes, but this Bill requires the same valuation to be used for rate making, capitalization, consolidation, and the measure of a fair return, or as a selling price of the property, and apparently the Commission may change that valuation from time to time. To wait for the final valuation will cause great delay and any intention of its use for all of these purposes is bound to be disappointing. Therefore, rather than stop all progress in fixing reasonable rates, let the existing property investment be used pending final valuation, as it is the return on the property investment of a traffic district that is a guide to the Commission in rate making, and not of single companies, and so far in those districts the return has been found too low for sound railroad credit.

AUTHORIZATION OF ADDITIONS AND BETTERMENTS

The Bill provides that the right of eminent domain cannot be exercised without a certificate of the Transportation Board and the Interstate Commerce Commission for acquisition, construction, maintenance or operation purposes, or any authorized extension or addition thereto, but authority to proceed with any new construction is divided between the State and the Federal Commissions. The construction of a new line of railroad or extension must be authorized by the Transportation Board, while the latter Board is specifically excluded from authorizing the construction of side tracks, spurs, industrial, team or switching tracks located wholly within one state—for that the railroads must apply for state authority. The question of branches and terminals does not seem to be very accurately defined. This serious question is further tied up by the approval of the issuance of securities to carry out such work being solely under Federal

authority. Therefore, I regard the provisions for carrying on improvement work and exercising eminent domain under such divided Federal and State authority as detrimental to business. Industries cannot defer the establishment or extension of their plants on such a divided and dilatory process to determine new branches, sidings, or station improvements. The entire responsibility for authorizing the acquisition of all additional right of way or terminal areas, as well as all new capital expenditure work, should at least be concentrated under one board, just as the issuance of securities is to be solely under the Interstate Commerce Commission. When improvements are so authorized, no public benefit is secured by requiring the consent of any governmental body to the exercise of the power of eminent domain. The requirement of such consent would mean delay and enhanced cost of property.

LABOR PROVISIONS—ARE THEY EFFECTIVE?

I have the following views on the labor provisions of the Bill:

Note that they primarily concern not only the management and investors but the welfare of 1,900,000 employes and affect the payment of \$2,800,000,000 in wages. The final decision on railroad wages is given to the Transportation Board. No qualifications are stated for the members of this important Board, which is to deal with the operating and administrative questions of all the railroads, including wages. Subordinate to this Board is a Committee on Wages and Working Conditions, consisting of eight members, four of whom shall be selected from the persons nominated by the organized railroad working crafts on each railroad to represent labor, and four from among the persons nominated by all the railroad corporations, and I suppose the Transportation Board is expected to represent the public. Four years is the term of office and \$4,000 each the compensation of the members of the Committee on Wages and Working Conditions. Unless this Committee is expected to pass all disputes to the Transportation Board, surely that short term and that salary are insignificant compared to the magnitude of this responsibility, which has tested the ability of the President and the Director General, and the Railroad Managers. For that task the best railroad managers who understand social questions as well as operating

questions are needed, and the labor members must be up to the same standard. Any suggestion as to standard wages that take no account of the varying living costs and conditions as between New York, Florida, California, Kansas and Maine is contrary to economic experience. No equitable plan for the avoidance of future disputes as to wages will be complete or protective against strikes, unless a sliding scale is adopted, whereby wages will be adjusted to living costs. Settlement of wages under pressure or as a compromise, is bound to produce dissatisfaction.

Labor Representation on Board of Directors

A further labor proviso is that on the Board of Directors of each carrier there shall be two labor directors and two government directors after June 30, 1920. The two labor directors shall be selected from the classified employes and nominated by the employes. The two government directors are to be appointed by the Transportation Board, and apparently whether satisfactory or unsatisfactory to each corporation. On all committees of the Corporations' Boards there shall be at least one labor director and one government director. These labor and government directors are to be compensated and their expenses paid by the corporation for attending board and committee meetings. There is nothing to show whether they are to be on the two thousand or more railroad boards of the country, or only on the boards of the operating carriers. Wages and working conditions are to be settled by the Committee on Wages and Working Conditions and by the Transportation Board in Washington so that no individual carrier corporation will have any responsibility for wages. Further, no carrier can prescribe the wages of its own employes independent of other railroads. Therefore, these labor and government directors on the Board of Directors of every carrier corporation seem to be like the fifth wheel of a wagon. They have no prescribed responsibilities or qualifications, and nothing is said as to the responsibility of the government for their votes. Looking for the results to be expected from the two government directors, the Bill does not permit railroad companies to make capital expenditures, to exercise the power of eminent domain, or to issue securities except upon government approval. What useful service, therefore, will these two govern-

ment directors render? If these four directors, instead of sitting on the carrier's Board of Directors, could be elected one-half by the carrier and one-half by the employes and work as subordinates to the Committee on Wages and Working Conditions, they might give a touch of home rule to the labor question, and form a thread of a labor organization starting from the local ground and ending with the Transportation Board which might be of some benefit. This is a suggestion and not a solution of the railroad labor question but indicates the necessity for careful revision. It would appear wiser to let the Transportation Board, which has final responsibility for wages and for governmental supervision of the railroads, direct how employes and corporations and the public shall be represented, and avoid prescribing elaborate machinery.

The Employes' Advisory Council

There is another labor provision, *i. e.*, an Employes' Advisory Council selected from each organized craft of railroad employes requesting representation, to administer a fund consisting of one-half of any excess earnings over a fair return, which any company guilty of that rare offense under a system of rates which must be reasonable and uniform, shall pay over to the Transportation Board. This duty might very easily be performed by the Committee on Wages and Working Conditions or the Transportation Board and dispense with this Advisory Council.

CONSOLIDATION OF ROADS

I am in favor of consolidation. The Bill declares it is the policy of the United States to divide the railroads into not less than 20 nor more than 35 separate and distinct systems—this division to be a division in ownership and for operating purposes. Each of the systems is to be owned and operated by a distinct corporation and, where practicable, the existing routes and channels of trade and commerce are to be maintained. The systems are to be so arranged and equalized as far as practicable, that uniform transportation costs, uniform rates and the same rate of return on value may be earned.

The Transportation Board shall devise and adopt the system plans, but may thereafter change the same. The Interstate Commerce Commission must also approve them. The govern-

ment will have no financial responsibility for their formation either in the voluntary consolidation plans, or in those regional companies to be mandatorily formed after seven years by order of the Transportation Board. The arresting of the laws of gravitation appears to be as easy to accomplish as to arrange and maintain these ideal systems, considering the divergent traffic, physical, financial and other conditions of the various roads in even a single traffic district. If anything is calculated to stop consolidations, and make them impossible to finance, it is a railroad alignment of this arbitrary character. The existing systems have been formed under a competitive system and follow the lines of the natural traffic routes, and are feeders and extensions of the original trunk lines, and in that way became attached to them as systems. Others might be formed gradually on similar lines, and as their organizations could be trained for the enlarged responsibilities.

The necessity for absorption, merger and consolidation of smaller corporations is apparent.

Analyzing the last complete Interstate Commerce Commission report for the year ending June 30, 1916, we find 1590 companies are divided into the following classes: class I, 189 railroads; class II, 276 railroads; class III, 431 railroads; switching and terminal companies, 227; lessor companies, 467. These 1590 companies do not include about 600 roads that are privately owned, or industrial lines not common carriers in the broad way, some of which report only to state commissions.

The 189 first class roads, together with their lessor companies, earned 97.4 per cent of the total operating revenues of the country. Now taking 162 of the chief operating companies which earned 94.6 per cent of the total operating revenues of the country, we find that they already constitute 86 systems. But only 18 systems during the test period earned over 6 per cent on their property investment, those systems being as follows: Bessemer & Lake Erie, Delaware & Hudson, Delaware, Lackawanna & Western, Elgin, Joliet & Eastern, Lehigh & New England, New York Central, Philadelphia & Reading, Atlantic Coast Line, Norfolk & Western, Alabama, New Orleans, Texas & Pacific Jct., Arizona & New Mexico, Bingham & Garfield, Chicago & Northwestern, Duluth & Iron Range, Duluth, Missabe

& Northern, El Paso & Southwestern, Great Northern, and Union Pacific.

Therefore, until earnings are increased, it is hard to see the basis on which the railroads can proceed with any wholesale plan of absorption or consolidation. The 86 systems existing can be reduced, not arbitrarily but as traffic and earnings justify. Indeed, as 23 systems already handle about 80 per cent of the total operating revenues, there seems to be no necessity or benefit to be obtained from constituting, valuing and financing new systems arbitrarily put together. These 23 systems were: Baltimore & Ohio, Boston & Maine, Delaware, Lackawanna & Western, Erie, Lehigh Valley, New York Central, New York, New Haven & Hartford, Pennsylvania, Philadelphia & Reading, Atlantic Coast Line, Chesapeake & Ohio, Illinois Central, Norfolk & Western, Southern, Atchison, Topeka & Santa Fe, Chicago & Northwestern, Chicago, Milwaukee & St. Paul, Chicago, Rock Island & Pacific, Great Northern, Northern Pacific, St. Louis & San Francisco, Southern Pacific, and Union Pacific.

What the railroads need is not an arbitrary division of the country into 20 nor more than 35 distinct and arbitrary systems formed by mandate of the Federal Government and the changing views of various boards or commissions; nor any attempts to tie the weak and the strong together, in the hope that in some way or other the few strong railroads of the country can support the weak lines, including lines that have thin traffic or should never have been constructed. The railroads want laws, that will permit the existing railway systems to absorb and eliminate the affiliated companies now owned, operated, leased or affiliated with their systems. Such further connecting roads may be added as may be required to round out these systems on a basis that would be approved by the Federal Commissions.

In the Pennsylvania System there are about 140 live companies, consisting of railroad companies, ferry companies, bridge companies, water companies and warehouse companies—all essential for transportation purposes. They are leased or operated, wholly owned, or owned in part by the parent company. Therefore, an absorption law to clear up the barriers in the existing charters and divergent state laws that prevent the absorption of such affiliated companies, to round out a single system and leave

the name and securities of the parent companies unchanged, seems desirable. No such absorption of small companies by the large systems can proceed on any large scale without reasonable earnings to enable that course to be pursued, and thereafter leave the system in a strong position to do its financing on reasonable terms.

The big systems have absorbed many weak lines, and are now supporting other weak lines, and they have about reached the limit in that respect.

STATE AND FEDERAL REGULATION OF RATES

At the conclusion of Federal control the Bill states that rates are to remain in effect until changed by competent authority. This means State as well as Federal. You can see what a hopeless state of confusion will be caused by throwing all the states into rate regulation again. The carriers are to file new schedules of rates, fares and charges with the Commission within thirty days after Federal control terminates, the same to become effective four months after they have been filed. During this period of readjustment, but for not exceeding five months, the compensation under the Federal Control Act is to be guaranteed. During the calendar year 1917 it took about seventy-five cents out of every dollar to pay operating expenses and taxes, and now it is costing over ninety cents out of every dollar. Certainly for this period of reconstruction, affecting the entire Nation, the United States Government should readjust all rates—State and Interstate—to meet the transportation costs, and properly establish railroad credit, by exercising the same control over rates as was done during Federal control. It is true that the Bill authorizes the Interstate Commerce Commission to coöperate with the State Commissions and remove any unreasonable discrimination against interstate and foreign commerce, but the Act specifically states that it does not amend or affect the existing state laws, or powers in relation to taxation or the lawful police powers of the several states, including the power to make and regulate intrastate rates except as in the Act otherwise provided. It will, therefore, be seen that such reservations will produce extensive proceedings or controversies so as to delay justice to the carriers, or to other states that may be affected by the rates made in a single state.

It also divides the responsibility as to the credit of the carriers. The declarations of policy and elements affecting reasonable rates should be made so mandatory that the Federal Commissions should have a positive duty to see that the rates, both state and interstate, are adequate to protect that credit.

The Cummins' Bill as it stands, gives us no definite or prompt assurance of adequate rates, nor does it get us away from conflicting state regulations. To make it a truly constructive measure it must be strengthened and amended in these fundamental particulars.

COMMANDEERING OF EARNINGS OVER A FAIR RETURN

The provisions relative to commandeering and using for other railroad companies and for railroad employes the so-called excess earnings of individual companies will throw many railroad investments again into a condition of uncertainty, because a fair return is not prescribed or defined, and what may be a fair return for one company, and for one year, may at the lapse of the next year be reversed by the Commission, or be varied for other companies. There will be no incentive to any carrier to earn any money in excess of the payment of an ordinary dividend, not only because of the confiscation of the so-called excess earnings, but the further provision that any surplus earnings invested in the property cannot be capitalized or used as a basis for increased returns. Both provisions in substance will force all future additions, betterments and improvements to be provided from the issue and sale of securities. Such provisions would terminate conservative financing, as under private ownership; the money for new improvements could be had only from the sale of bonds under these conditions, and at higher interest rates to accord with the risk of bad years. If this system is once established for the railroads, it will in time be applied to all public utility companies at the outset, and later to industrial and manufacturing concerns, because their products are just as essential for the daily life of the citizen as railroad transportation.

I desire to emphasize the fact that the conservative railroads which have successfully weathered the various panics, industrial and financial, here and in England, without wiping out or reducing their dividends, are those railroads which used their surplus

over reasonable dividends to provide additional facilities and equipment for the public use, instead of selling stocks or securities for that purpose.

The Pennsylvania System is a fair example. Its property cost and marketable securities, not including holdings of securities of companies forming part of the system, exceeds the total outstanding securities in the hands of the public to the extent of over \$500,000,000. If the company instead of following that practice had distributed all its yearly surplus in dividends, and had sold securities for all additions and betterments to its property and equipment, it would now require \$30,000,000 per annum of additional net income to pay its 6 per cent dividends, or the company's stock would have been reduced to a 4 per cent dividend, and its bonds would have had to carry a much higher rate of interest because of weaker credit. It would have been impossible for it to have sold its stock on the market, and that would have been to the detriment of the country and industry, as well as to the company's security holders and owners.

The company's surplus was not derived from excessive transportation charges. These charges have been materially below those authorized by its charter. The freight charges especially were materially reduced from the beginning of operation, about seventy years ago, to within recent years, and almost ruinous competition among the various roads had a great effect in reducing these charges. The surplus for improving the company's credit and property was obtained not only from moderate profits in the transportation business, but by paying low dividends on its stock for a long series of years, from selling its stock at premiums, and from profits realized on its investments. This surplus was invested in the property for the improvement of the same for the public use, when legitimately it might all have been disbursed in dividends to the stockholders.

DANGERS IN RESTRICTING INVESTMENT OF SURPLUS EARNINGS

This practice was also followed by other companies without any regulation or legal requirements, and the public has benefited. What I object to is: (1st) the reprehensible feature that what a company earns under fair and uniform rates through good management and efficient transportation can be taken from

it and given to others, thereby sapping the spirit of initiative and competition, and (2nd) Federal regulation that ultimately will create a situation in which no surplus earnings over a fair return can exist, and that absolutely penalizes the railroads if they invest any surplus earnings in the property for the benefit of the public. If these provisions are allowed to stand, then the least I can ask is that an allowance of some surplus over a fair return in good years should be made mandatory, and not permissive, to assist in lean years. Otherwise in bad years, rates would have to be increased when the shippers could least afford to pay them.

If The Pennsylvania Railroad Company after paying its fair dividends is not to have a surplus to sustain the credit and operations of weak roads in its system, then several hundred miles of railroads must stop operations and improvements, and communities must suffer.

The Pennsylvania System represents about 6.5 per cent of the whole track mileage of the country, about 13 per cent of the ton mileage, 13.5 per cent of the passenger mileage, and its track mileage is about one-half of that of Great Britain and Ireland, and it has invested for public use \$1,800,000,000 in its road and equipment, approximately one-tenth of the whole railroad investment of this country. It has been opened for traffic sixty-seven years, and during that time its management has observed a sane and conservative financial and operating policy, and dealt as generously with labor in wages and welfare funds to the extent the earnings permitted. I have the honor of having served the company, with the exception of a few years, since 1871, and for over thirty years have been closely associated with the executive department, familiar with the construction of new lines and branches to serve the public and the financing, upbuilding and compacting of the system. Therefore, I can speak intelligently, and indeed feelingly, about the company's policy and affairs. So far as public regulation is concerned, for the last ten years the company has not been allowed sufficient revenues to earn 6 per cent on the cost of its property and equipment except in 1909 and 1916. Yet so far as the management is concerned, long before there was any regulation of the railroads, as we now understand it, The Pennsylvania Railroad Company did not distribute all of its net income in dividends, but judiciously applied a substantial

portion to promoting, helping and upbuilding its feeders and connecting lines, to eliminating grade crossings, and for other similar construction items. It was not alone in this policy. Other companies pursued the same course, and they could be depended upon to continue such policies, under proper regulation, without injustice to the public. Then why must Congress now propose, as a future National policy, to confiscate their so-called surplus earnings and stop incentive, and on the other hand fail to definitely order reasonable rates that must produce a fair return upon which railroads can live and make progress?

THE PROBLEM AND THE REMEDY

The Railroad problem has not changed, nor is it shrouded in mystery. It is this: railroad earnings and credit must be created sufficient to support the existing railroad investment and attract the additional capital the transportation business requires in the public interest. New capital cannot be commandeered. Therefore, adequate rates made under public approval, with opportunity for competition, initiative and incentive, is the effective remedy for the whole problem in my opinion. If adequate rates had been granted in the past decade, there would not have been a railroad problem. I desire to see the Cummins' Bill amended to definitely accomplish that result. If that mandate is not positively forthcoming as the result of the new Congressional legislation, all the boards and machinery created for regulatory purposes will be useless. Extreme care must be exercised to insure sound credit, and not theorize about it. If public regulation does not allow earnings sufficient to sustain railroad credit, and provide necessary transportation facilities, the public will be forced to regard regulation as a huge waste of money, time and effort, and demand a simplification of the situation, and start with a new slate, or drive straight for government ownership with its train of higher costs, inefficiency, and political domination of the employes and of the industries depending on the railroads. National reconstruction cannot be accomplished while railroad investments and credit are left in an unsatisfactory condition. This should spur Congress, the commissions, the investors, the employes, railroad management, and the public to work together for an equitable and prompt solution of this great problem. To

that end the railroad executives are prepared to devote their whole time and attention, if the Congressional Committees so desire. Further delay is extremely dangerous to all concerned.